S. H. KRESS & COMPANY

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Annual Report · 1944

February 16, 1945

To Employes and Stockholders:

The following comparative Statement of Profit and Loss and Surplus and Balance Sheet of your Company for 1944 is certified to by Messrs. Price, Waterhouse & Co., public accountants.

Sales for 1944 amounted to $127,955,060, which amount is 3.2% higher than for 1943. Net profit for the year, after providing for all charges, including Federal income and excess profits taxes, amounted to $5,734,632 as compared with $5,768,585 (before provision of $250,000 for post-war adjustments) in 1943. After payment of dividends of 60¢ per share on the outstanding special preferred stock, the net profit is equivalent to $2.25 per share of outstanding common stock as compared with $2.26 in 1943 ($2.16 after provision for post-war adjustments). Dividends of $1.60 per share were paid on the common stock as in 1943.

On September 5, 1944, the Board of Directors of your Company authorized the redemption of the outstanding special preferred stock and in accordance with that authorization all outstanding special preferred stock was redeemed on December 14, 1944. This action reduced the capital stock outstanding in the hands of the public to 2,351,674 shares of common stock. Of the 7,174 owners of the outstanding common stock on December 31, 1944, 1,042 were employes or were former employes now in military service.

In 1944 a total of $17,108,110 or 13.4¢ out of each dollar of sales was required for Federal, State and Municipal taxes. Federal income and excess profits taxes alone for 1944 were $6.08 per share of outstanding common stock as compared to $4.93 in 1943. We also collected for Federal, State and Municipal taxing authorities, excise and sales taxes amounting to $3,441,588.

Salaries and wages paid to officers and employes of the Company in 1944 amounted to $19,031,206, which is equivalent to 14.9¢ of each dollar of sales, as compared to $18,171,426 or 14.7¢ per dollar of sales in 1943. Salaries and wages paid to the nineteen officers and directors in

1944 amounted to $378,846 as compared to $357,266 paid in 1943. An additional $168,235 has been set aside from the 1944 profits to be paid to store employes, other than managers, as additional compensation based on length of service and individual accomplishment during the year. This payment, as in former years, will be made in War Savings Stamps and Bonds during the early part of 1945. Your Company also paid $274,555 as its share of the cost of the employes' retirement pension and group life insurance plans.

Effective March 15, 1944, all salary requirements were eliminated from the employes' retirement pension plan making all employes meeting the age and length of service requirements eligible for participation.

On December 31, 1944, 243 stores were in operation in twenty-nine states and in the Territory of Hawaii. During the year our stores at Little Rock and Pine Bluff, Ark., which were closed because of fires in 1942 and 1943, were reopened. Our store at 43 Whitehall Street, Atlanta, Ga., was closed during 1944 upon expiration of the lease as our store at 67 Whitehall Street has ample facilities for taking care of the business formerly handled by both stores. Our stores at Beaumont and Paris, Texas, were closed recently because of fires.

The increasing difficulty in obtaining desirable merchandise to meet the demands of our customers is reflected in the reduction in inventory on hand at December 31, 1944. As a result of more rigid wartime restrictions on the production of consumer goods our efforts to meet the requirements of our customers must be further intensified during 1945.

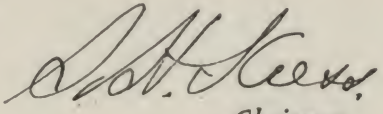
The amount of the cash and securities on hand at December 31, 1944, which was in excess of normal working capital requirements, will be needed for the payment of Federal income and excess profits taxes, for store construction and rehabilitation work deferred since 1941 and for the replacement of inventories.

As of December 31, 1944, 1,383 or 62.9% of the normal number of our male employes and 115 of our female employes had entered military service. It is with regret that we announce that sixteen of these employes have lost their lives, four are reported to be prisoners, and two are reported as missing in action. Much thought has been given to the return of our former employes who are now in military service and a definite program was established in 1944 for their retraining in the business upon their return.

The facilities of all of our stores are being used constantly to promote the sale of War Savings Stamps and Bonds to customers and employes, in addition to which substantial purchases of U. S. Treasury bonds and notes have been made by the Company.

We take this opportunity to thank sincerely our employes and our manufacturers and suppliers for the loyal cooperation they have given us during 1944 and we are confident that the same loyal cooperation will be continued during 1945 and the years to come.

By order of the Board of Directors,



Chairman

AUDITORS' REPORT

To the Stockholders of S. H. Kress & Company:

We have made an examination of the balance sheet of S. H. Kress & Company as of December 31, 1944 and of the related statement of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying balance sheet and related statement of profit and loss and surplus present fairly the position of S. H. Kress & Company at December 31, 1944 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

56 Pine Street,
New York,
February 16, 1945.

S. H. KRESS & COMPANY

Statement of Profit and Loss and Surplus

	Year Ending December 31, 1944	1943
GROSS SALES	$127,955,060	$124,021,970
Deduct:		
Cost of merchandise sold and operating expenses (including amounts charged as rental of owned properties and leasehold improvements)	$107,889,730	$106,048,852
Provision for depreciation and amortization	2,093,781	2,259,416
Provision for employes' retirement pension plan	233,656	216,306
Provision for post-war adjustments	—	250,000
	$110,217,167	$108,774,574
	$ 17,737,893	$ 15,247,396
Add:		
Amounts charged as rental of owned properties and leasehold improvements (included in expenses above)	$ 1,488,901	$ 1,492,694
Rentals received from other tenants	440,173	373,798
Gain (or loss) on sales of U. S. Government securities and other assets	220,416	(73,545)
Miscellaneous other income	147,249	78,242
	$ 2,296,739	$ 1,871,189
	$ 20,034,632	$ 17,118,585
Deduct:		
Provision for Federal income taxes	$ 2,600,000	$ 2,600,000
Provision for Federal excess profits taxes	$ 13,000,000	$ 10,000,000
Less—Post-war refund credit	1,300,000	1,000,000
	$ 11,700,000	$ 9,000,000
Total Federal taxes based on income	$ 14,300,000	$ 11,600,000
NET PROFIT FOR THE YEAR	$ 5,734,632	$ 5,518,585
EARNED SURPLUS AT BEGINNING OF YEAR	19,496,590	18,173,061
	$ 25,231,222	$ 23,691,646
Deduct:		
Dividends paid:		
On common stock ($1.60 per share)	$ 3,762,678	$ 3,762,678
On special preferred stock (60¢ per share)	432,383	432,378
	$ 4,195,061	$ 4,195,056
Premium paid on redemption of special preferred stock, less expired scrip canceled	719,805	—
	$ 4,914,866	$ 4,195,056
EARNED SURPLUS AT END OF YEAR	$ 20,316,356	$ 19,496,590

S. H. KRESS & COMPANY

ASSETS

	December 31, 1944	1943
CURRENT ASSETS:		
Cash	$ 15,482,679	$ 11,308,759
U. S. Government securities, at amortized cost (market value at Dec. 31, 1944—$10,231,000)	10,219,964	14,385,575
Sundry debtors	526,184	259,517
Inventories of merchandise, including merchandise in transit, at cost or market, whichever is lower	13,552,877	20,341,355
Total current assets	$ 39,781,704	$ 46,295,206
OTHER ASSETS:		
Loans and advances to landlords, deposit in escrow and miscellaneous notes receivable	$ 420,031	$ 429,065
Post-war refund of Federal excess profits tax (estimated)	3,190,000	1,890,000
Prepaid insurance premiums, rents, etc.	788,562	270,723
Total other assets	$ 4,398,593	$ 2,589,788
CAPITAL ASSETS:		
Fixtures and equipment, at cost	$ 15,084,998	$ 15,226,165
Less—Reserve for depreciation	10,883,613	10,505,066
	$ 4,201,385	$ 4,721,099
Leasehold improvements, at cost	$ 16,366,686	$ 16,847,723
Less—Reserve for amortization	7,783,241	7,612,028
	$ 8,583,445	$ 9,235,695
Land and buildings owned in fee, at cost in cash and capital stock	$ 39,098,762	$ 38,532,591
Less—Reserve for depreciation	8,400,609	7,508,729
	$ 30,698,153	$ 31,023,862
Goodwill, leaseholds, etc.	$ 1	$ 1
Total capital assets	$ 43,482,984	$ 44,980,657
	$ 87,663,281	$ 93,865,651

Balance Sheet

LIABILITIES

		December 31, 1944	December 31, 1943
CURRENT LIABILITIES:			
Accounts payable—trade creditors		$ 1,510,359	$ 1,228,570
Accounts payable—merchandise in transit		862,236	1,210,483
Accrued salaries, expenses, taxes, etc., including taxes withheld		3,468,547	2,841,699
Provision for Federal income and excess profits taxes	$16,963,047		
Less—U. S. Treasury tax savings notes at December 31, 1944	4,100,000	12,863,047	13,238,243
Total current liabilities		$ 18,704,189	$ 18,518,995
RESERVE FOR POST-WAR ADJUSTMENTS		$ 250,000	$ 250,000
CAPITAL STOCK AND EARNED SURPLUS:			
Capital stock:			
Special preferred stock—6% cumulative— Authorized—1,000,000 shares of $10 each—$10,000,000			
Issued—911,976–6/40 shares, all of which were redeemed during 1944		——	$ 9,119,761
Common stock without par value— Authorized—2,678,787 shares			
Issued—2,357,574 shares		$ 48,511,253	$ 48,511,253
Total capital stock		$ 48,511,253	$ 57,631,014
(Common stock reserved for sale to employes—68,434 shares)			
Earned surplus		$ 20,316,356	$ 19,496,590
Less—Cost of shares of capital stock reacquired:			
Special preferred stock —191,114 shares		——	1,912,431
Common stock—5,900 shares		118,517	118,517
		$ 20,197,839	$ 17,465,642
Total capital stock and earned surplus		$ 68,709,092	$ 75,096,656
		$ 87,663,281	$ 93,865,651

S. H. KRESS & COMPANY

Buying-Administrative Offices
114 FIFTH AVENUE, NEW YORK 11, N. Y.

OFFICERS

S. H. KRESS	*Chairman of the Board*
R. H. KRESS	*President*
W. L. BAKER	*Vice-President*
O. N. BIRKLAND	*Vice-President*
H. S. DAVIS	*Vice-President*
W. H. LOLLAR	*Vice-President*
E. F. SIBBERT	*Vice-President*
O. A. TAYLOR	*Vice-President*
H. F. CUNNINGHAM	*Secretary*
C. M. FUNK	*Treasurer*
W. M. WEAVER	*Assistant Treasurer*
W. F. DEMPSEY	*Assistant Secretary*
P. W. DENZIN	*Assistant Secretary*
J. S. SMITH	*Assistant Secretary*
W. G. FOLK	*Assistant Secretary and Assistant Treasurer*

DIRECTORS

S. H. KRESS	W. L. BAKER	O. N. BIRKLAND
R. H. KRESS	O. A. TAYLOR	H. S. DAVIS
H. S. BOWERS	J. M. HANCOCK	W. H. LOLLAR
	M. A. HODGES	H. A. BARGEON

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